

Payroll Guidelines for Processing Severance

These guidelines are provided for agency payroll officers to facilitate the processing of severance payments to employees reduced in force (RIF).

The following deductions are included in severance checks:

- 1. Federal tax**
- 2. State Withholding Tax after the first \$35,000 of severance pay (The first \$35,000 of severance pay is exempt from State Withholding Tax)**
- 3. Social Security**

The following deductions are NOT included in severance checks:

- 1. State Retirement**
- 2. All other employee benefit deductions, including health insurance, dental insurance, other insurances, Deferred Comp (457), 401(k), Tax Sheltered Annuities 403(B), Deferred Parking, SECU, and any NCFLEX deductions.**

Note: RIF employees will receive individual health insurance coverage under the State Health Plan for up to one year. If the employee has children only or family coverage, their premium will not be deducted from their severance pay, they will submit their payment for this coverage to the parent agency.

If Discontinued Service Retirement is approved:

- 1. Pay vacation and longevity on the mid-month payroll run, supplemental payroll, "J" cycle. You must pay this as a split on the supplemental payroll showing regular account code for vacation and underneath show the longevity account code for longevity due. One total will be shown on the gross. (Retirement will be taken out of this check.)**
- 2. Zero off the employee on the regular monthly payroll, "A" cycle**

Schedule for payrolls for RIF employees not receiving DSR:

- 1. The following month after the employee has received their last full month pay, you will generate a mid-month supplemental “J” cycle payroll, to pay out their vacation and longevity**

- **Use the split screen which already is reflecting the regular account code for vacation.**
- **Underneath reflect the longevity account code for longevity due.**
- **One total will be shown on the gross. (Retirement will be taken out of this check.).**

- 2. Zero employee off the monthly payroll.**

In the next month, severance, if approved, will begin to be paid out. Severance is paid on the mid-month payroll supplemental “S” cycle. This payroll process will be repeated every month until all severance is paid out.

- **Make sure that the employee’s master is in cycle “3”, inactive.**
- **Change the employee’s retirement code to 5 and the matching code to 5. (No retirement is taken out of severance pay.)**

Entering severance payroll:

- 1. On the OSC Central Payroll System – Main Menu Screen**

- **Enter your access code.**
- **Selection number 10 for Special Payroll Menu.**
- **Press enter. This brings you to the Special Payroll Menu screen.**

- 2. The Special Payroll Menu screen**

- **Type in selection number 2 for Rewrites and Refunds.**
- **At the bottom of your screen put in your Unit Code.**
- **Enter the number 99999 for the Page Number. This number is used when you are generating the payroll yourself.**
- **The payroll number or P/R#, will be the current month’s payroll number.**
- **Enter the employee’s social security number.**
- **Type an “S” in the Cycle field.**

- **Press Enter to get to the Rewrites/Refunds Adjustments Screen.**

3. Rewrites/Refunds Adjustments Screen

- **The D/S Code is in the top right portion of the screen place the letter “S” for severance.**
- **On the left portion of your screen, put the gross amount to be paid in the GROSS-PAY field.**
- **On the same line is the EXEMPT\$ field. Type in the amount of pay to be exempt from State Withholding Taxes.**
- **At the bottom of the screen on the left hand side, type in the PAYROLL END DATE.**
- **Tab over once and type “U” for update.**
- **If there are other employees receiving severance, type in the next social security number**
- **Press enter.**
- **OR**
- **If there are no other employees receiving severance, type in “T” at NEXT SCREEN field to get to the Total Page.**
- **Press enter.**
- **Verify all totals and view changes. Forward to Central Payroll.**

Key points to remember about severance pay

- 1. Severance pay is based on a Service Factor (how long an employee has been working with the state) and an Age Factor.**
- 2. Severance, once started, will be paid on the Mid-Month Payroll, usually the 15th of every month.**
- 3. Employees can receive one to four months of severance pay. It is recommended that you create a spreadsheet to keep track of your severance pay outs showing how much an employee is to be paid per month, the exempt amounts, the non-exempt amounts and their total severance.**
- 4. Severance payments must have prior approval by the State Budget Officer.**
- 5. DSR must have prior approval by the State Budget Officer and the Retirement System.**

Sample Severance Payout:

Notification is provided to the employee that their position will be reduced – in – force effective June 30th. Assume the employee is eligible for two severance payments.

- 1. The agency payroll officer should pay the annual leave balance and longevity pay on the supplemental “J” cycle Mid-Month payroll run dated July 15, 2002.**
- 2. The agency payroll officer must zero the RIF employee off of the monthly “A” cycle payroll in July.**
- 3. The agency payroll officer should enter the first severance payment through the “S” cycle Rewrite/Adjustment screen, which will be paid on August 15, 2002. Agency must ensure that the retirement code is changed to 5 and the matching is code 5.**
- 4. The Agency payroll officer should enter the second severance payment through the “S” cycle Rewrite/Adjustment screen for payment on September 13, 2002. Agency must ensure that the retirement code is still 5 and the matching code is 5.**